REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMVOTI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Umvoti Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages ... to ... .

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010.* Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

7. An examination of the municipality's asset register revealed significant weaknesses and shortcomings, including asset conditions and unique identification numbers that were not completed in the asset register, and details pertaining to valuation (fair values, residual values and impairment losses) that were not included. The municipality did not review the residual values and useful lives of property, plant and equipment at each reporting date in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. The municipality was unable to provide an adequate asset register to support the assets totalling R109,738 million as disclosed in note 8 to the financial statements. Due to the deficiencies inherent in the asset register and the lack of identification numbers on the assets, physical verification procedures and alternative audit procedures could not be performed satisfactorily to confirm the existence, valuation and completeness of the assets recorded in the municipality's asset register.

Qualified opinion

8. In my opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Umvoti Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

10. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2010, in respect of property rates, general expenses as well as cash and cash equivalents, have been restated as a result of errors discovered during 30 June 2011 in the financial statements of the Umvoti Municipality at, and for the year ended 30 June 2010.

Irregular expenditure

11. As disclosed in note 33 to the financial statements, the municipality incurred irregular expenditure totalling R4,340 million, as a result of supply chain management regulations not being followed.

Material losses

12. As disclosed in note 37 to the financial statements, the municipality incurred material electricity distribution losses to the amount of R4,854 million.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

16. We could not conduct the audit of performance against predetermined objectives as the municipality did not submit the annual performance report as required by part C of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*.

Compliance with laws and regulations

Strategic planning and performance management

17. The performance report for the financial year under review was not prepared as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), read with section 121(3)(c) of the MFMA.

18. The municipal council did not, within the prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality, as required by section 25 of the MSA.

19. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA, read with regulations 7 and 8 of the Municipal Planning and Performance Management Regulations of 2001.

20. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72(1)(a)(ii) of the MFMA .

21. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the Mayor of the municipality, the National Treasury, and the Provincial Treasury, as required by section 72(1)(b) of the MFMA.

Asset management

22. The accounting officer did not ensure that a proper internal control system existed for assets to eliminate theft, losses, wastage and misuse, as required by section 63 of the MFMA.

Expenditure management

23. The accounting officer did not take effective steps to prevent irregular expenditure, as required by section 32 of the MFMA.

INTERNAL CONTROL

24. In accordance with the PAA and in terms of *General Notice No.1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010,* I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

25. The accounting officer did not exercise effective oversight responsibility to ensure that the municipality complies with laws and regulations as well as has and maintains an effective system of internal control over asset and expenditure management.

Financial and performance management

26. The accounting officer did not maintain an effective and efficient system of recording, reporting and monitoring of information on predetermined objectives.

Governance

27. The audit committee did not report to or advise the council on matters relating to internal control and financial related issues.

OTHER REPORTS

Investigation in progress

28. An investigation is being conducted into supply chain and human resource management to probe the awarding of certain contracts, accusations of theft, and the manner in which promotions were made within the municipality.

Auditor-General

Pietermaritzburg

30 November 2011

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence